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March 19th, 2007

Hon. John Dingell, Chair
House Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman,

You recently requested comments from industry and environmental groups concerning legislation to address the possible control of greenhouse gases, including the design and operation of a "cap and trade" program. Although we were not specifically asked for input, I am taking the liberty of sending our thoughts in the hope that they might be included in your deliberations.

By way of introduction, FReMCo Environmental is a firm with a long history of involvement in air quality improvement. We have provided assistance to Fortune 500 companies in reducing their emissions of harmful pollutants and at the same time finding value in those reductions through emissions trading. Over the past 17 years, FReMCo staff has been involved in the following initiatives:

- The Grand Canyon Visibility Transport Commission Policy Committee
- The Ozone Transport Assessment Group and its various committees
- The Southern Appalachian Mountain Initiative Technical Committee
- The Open Market Trading Rule development
- The Clean Air Act Advisory Committee and its Regulatory Innovation Committee
- CleanAir Canada (Chairman of the Board)
- Canadian Environmental Markets Association (Chairman of the Board)
- North American Research Study on Tropospheric Ozone Executive Committee
- Lake Michigan Air Directors Consortium (founder and Executive Director)

For the past ten years, we have been involved with a number of innovative emissions trading projects, from which we have gained practical experience as to what works and what could be improved. Although current approaches to achieving environmental improvement via market forces have been somewhat successful in the past, these

approaches might benefit from some innovative adjustments to address the unique challenges of global warming.

The basic premises of a "cap and trade" program are:

- An overall reduction in emissions from a fixed set of sources will solve "the problem;"
- Within that set of sources, the cost of controlling emissions will vary, depending on circumstances;
- Limiting emissions from each source will result in some reduction in those emissions; and
- Allowing sources to find the least-cost solution to emissions reductions through trading will result in lower overall control costs and therefore a healthier economy.

The model for this program is US EPA's Acid Rain program, which issues a declining number of allowances each year to electrical generating facilities, and which has resulted in significant reductions in sulfur dioxide and acid deposition in lakes and rivers at a much lower cost than was originally projected.

While the Acid Rain program has been a major success, there are several differences between the sulfur dioxide problem and the greenhouse gases problem. Chief among them, of course, is the fact that the sources of sulfur dioxide are relatively low in number, easily identified, and highly regulated. A declining cap on these sources does address the problem, because there are virtually no other sources of sulfur dioxide to worry about. This same approach has been implemented in the eastern United States to address the problem of nitrogen oxides, with less success, because a significant percentage of the sources of nitrogen oxides are not included in the program.

To achieve maximum success with a trading program for greenhouse gases, therefore, we believe that two additional elements should be included. First, to encourage and reward technological innovation in the reduction of greenhouse gas emissions, there should be opportunities for sources not included in the allowance program to create credits (with appropriate verification). For example, the State of Illinois has a trading program that allows non-capped sources to make reductions in their emissions and, after verification and review, offer a percentage of these for sale for a limited period. By doing so, the State encourages and rewards innovation and environmental improvement, and at the same time benefits from emissions reductions it would not otherwise have achieved. Given that virtually every human activity generates greenhouse gases, and that most of the greenhouse gas inventory will be outside the allowance program, it makes sense to take advantage of this opportunity.

Second, we recommend that offsets be allowed, but carefully regulated. In the past, offsets such as credits for shutting down a plant or planting trees in Costa Rica have made the public skeptical about the validity of these reductions – and rightfully so. While allowing offsets will again encourage innovation and reduce costs, credibility is also

important. Since the location of the source of greenhouse gases is not at issue, US firms could choose to pay for emissions controls in developing countries, perhaps “jump-starting” control efforts in the Third World. Not insignificantly, this would also benefit the US pollution control industry and the clean technology sector.

Allowing both participant and non-participant industries to proactively develop and market emission reduction materials and technologies, to use the resulting emissions reductions as credits, and to sell those credits to capped sources in the marketplace will result in lower control costs, a more rapid reduction in emissions, and a healthier economy in general. To a committee that addresses Commerce as well as climate change, this should have significant appeal.

We would be more that pleased to discuss this with you further at your convenience, and strongly encourage the committee to consider this very positive and balanced approach that brings both environmental and commercial benefits at the same time.

Thank you for your consideration of our comments.

Sincerely,

Peter Chant, President